

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

APPLICATION OF SALEM TELEPHONE	)	
COMPANY FOR AUTHORITY TO INCREASE	)	CASE NO. 7782
ITS RATES FOR TELEPHONE SERVICE	)	
RENDERED ON OR AFTER JULY 1, 1980	)	

O R D E R

On March 26, 1980, Salem Telephone Company (Applicant) filed a Notice with the Commission requesting to increase its rates and charges for telephone service on and after July 1, 1980. The rates and charges proposed by the Applicant would produce an annual increase in revenues of approximately \$115,000 and Applicant stated that this increase was necessary to pay its operating expenses, attract capital and provide a reasonable return on the capital investment in the business.

In order to determine the reasonableness of the proposed rates and charges, the Commission in its Orders dated March 26, 1980 and April 15, 1980 suspended the proposed rates and charges for a period of five months on and after July 1, 1980 and set a public hearing to be held on May 12, 1980. The hearing was held as scheduled with one intervenor, the Attorney General's Division of Consumer Intervention, being present. At the close of the hearing following responses to information requested, the matter was submitted to the Commission for final determination.

TEST PERIOD

The Applicant proposed and the Commission has accepted the calendar year ending December 31, 1979 as the test period to be used in this proceeding.

## VALUATION METHODS

### Net Investment

The Commission has determined from the record that the Applicant's net investment in its utility operations at December 31, 1979 is as follows:

Telephone Plant in Service	\$ 2,623,428
Telephone Plant Under Construction	7,519
Total Telephone Plant	<u>\$ 2,630,947</u>
Add:	
Materials & Supplies	\$ 14,631
Prepayments	2,238
Subtotal	<u>\$ 16,869</u>
Less:	
Accumulated Depreciation	<u>\$ 356,252</u>
NET INVESTMENT	<u><u>\$ 2,291,564</u></u> <sup>1</sup>

### Capital Structure:

From the record the Commission has determined that Applicant's capitalization at the end of the test period is as follows:

Common Equity	\$ 92,783
Long Term Debt	2,258,626 <sup>2</sup>
Total Capital	<u><u>\$ 2,351,409</u></u>

## REVENUES & EXPENSES

In the traditional sense, the Applicant didn't propose to make pro forma adjustments to its operating statement. Instead the Applicant chose to project its operations over a two year period. This method is not acceptable as it involves estimations and projections that have no verifiable basis and the Commission, therefore, rejects this approach.

However, from the notes to the projected statements and through cross-examination of the Company's witnesses, the Commission has determined that certain adjustments are in order as they are known, just and measurable. These are as follows:

### Salaries and Wages:

The Company has approved wage increases in the amount of \$14,080.<sup>3</sup> Of this amount approximately \$12,378 or 88%<sup>4</sup> of the increase will be expensed which is the same basis as the test period.

<sup>1</sup> Applicant's Exhibit B, page 1.  
<sup>2</sup> Applicant's Exhibit B, page 2.  
<sup>3</sup> Applicant's Exhibit A, page 12.  
<sup>4</sup>  $\$73,816 \div \$83,968 = 88\%$ .

Payroll Taxes:

Related to the wage adjustment above, payroll taxes will increase approximately \$1,342.<sup>5</sup>

Employee Retirement Expenses

The Company has approved a retirement program for its employees. This agreement will result in an increase in Applicant's expenses of \$9,750<sup>6</sup> on an annual basis.

Rate Case Expenses

The legal, accounting and advertising expenses associated with this case were estimated to be approximately \$4,600.<sup>7</sup> In accordance with Commission policy, this expense has been amortized over a two year period.

Interest Expense

The Commission has made an adjustment of \$4,993<sup>8</sup> to normalize interest expenses to reflect the annual expense associated with long-term debt outstanding at the end of the test period.

Employee Concession Service

During the test period the Company allowed employee concessions amounting to \$1,026<sup>9</sup> in lost revenue. The Commission has made an adjustment to increase test year revenue by this amount in accordance with its policy concerning employee concessions.

Upgrade to One Party Service

By August , 1979, the Applicant had completed its upgrade program in which all party line service was eliminated. As one party service to business and residential customers provides more revenue, the Commission has normalized the end-of-period basic service revenue less actual revenue to reflect the higher charges. This adjustment increases the test period level of revenue by \$4,744.<sup>10</sup>

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<sup>5</sup> Calculated from Applicant's Exhibit A, page 5.

<sup>6</sup> IBID.

<sup>7</sup> IBID.

<sup>8</sup> Calculated from Applicant's Exhibit B, page 8.

<sup>9</sup> Applicant's Exhibit A, page 11.

<sup>10</sup> Calculated from Applicant's Response to Staff Request dated April 12, 1980.

Therefore adjusted test year operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$ 275,013	\$ 5,770	\$ 280,783
Operating Expenses	261,215	25,770	286,985
Operating Income	\$ 13,798	\$ (20,000)	\$ ( 6,202)
Interest Income	\$ 264		264
Interest Expense	\$ 46,550	\$ 4,993	\$ 51,543
Net Income (Loss)	\$ (32,488) <sup>11</sup>	\$ (24,993)	\$ (57,481)

#### RETURN

The Commission is of the opinion that the adjusted operating deficit is clearly unfair, unjust and unreasonable.

The Commission is of the opinion that a fair, just and reasonable rate of return is 3.36 %, which will allow Salem to pay its operating expenses, service its debt and provide a reasonable return on capital investment.

Therefore, Applicant's operating income deficiency is \$83,253.<sup>12</sup> This deficiency adjusted for income taxes is \$89,492<sup>13</sup> which is the amount of additional revenue granted herein.

#### SUMMARY

The Commission, after considering all of the evidence of record, and being fully advised, is of the opinion and so FINDS:

(1) That a fair, just and reasonable rate of return is 3.36% and that to achieve these earnings Applicant is entitled to increase its rates and charges to generate additional annual revenues of \$ 89,492.

(2) That the rates and charges set out in Appendix "A" attached hereto will produce gross annual revenues in the amount of approximately \$ 370,275 and are the fair, just and reasonable rates for the Applicant to charge for telephone service in that they will produce revenues sufficient to permit it to pay its operating expenses, service its debt, and provide a reasonable return on capital investment.

<sup>11</sup> Applicant's Exhibit B, pages 3 & 4.

<sup>12</sup> \$2,291,564 X 3.36% = \$77,051+ \$6,202 = \$ 83,253.

<sup>13</sup> \$ 83,253 - \$57,481 = \$25,772; \$25,772 ÷ 8051 = \$32,011;  
\$ 32,011 - \$25,772 = \$6,239; \$6,239 + \$83,253 = \$89,492.

(3) That although Applicant did not request an increase in its public coin telephone rates, Appendix "A" attached hereto approves a twenty-five (\$0.25) cent rate for these telephones. The charge for this service has remained unchanged for twenty-five years. During that time, plant costs and operating expenses throughout all areas of the Company's operations have increased substantially. As a result of preserving the ten-cent rate during this period of ever-increasing costs, the general ratepayers, through their monthly bills for basic telephone service, have been subsidizing the use of coin telephones. The Commission is of the opinion that an increase in coin telephone charges is an appropriate means of allocating a portion of the costs of this specific service to those for whom it is incurred. It has therefore, approved a coin telephone charge of twenty-five cents.

(4) That the rates proposed by the Applicant are unfair, unjust, and unreasonable in that they produce revenues in excess of \$370,275 and should be denied.

IT IS THEREFORE ORDERED, that the rates sought by Salem Telephone Company, Inc., be and the same are hereby denied.

IT IS FURTHER ORDERED, that the rates set out in attached Appendix "A" are hereby approved for telephone service rendered by Salem Telephone Company, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED, that the Applicant shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the

VOID  
BUT HOLD  
UNTIL WE  
GET NEW  
SIGNATURE  
PAGE SIGNED

UTILITY REGULATORY COMMISSION

*Richard D. Long*  
Chairman

*Wm. H. Hazzman*  
Vice Chairman

*Mary Ray Ocker*  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

(3) That the rates proposed by the Applicant are unfair, unjust, and unreasonable in that they produce revenues in excess of \$370,275 and should be denied.

IT IS THEREFORE ORDERED, that the rates sought by Salem Telephone Company, Inc., be and the same are hereby denied.

IT IS FURTHER ORDERED, that the rates set out in attached Appendix "A" are hereby approved for telephone service rendered by Salem Telephone Company, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED, that the Applicant shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 29th day of August, 1980.

UTILITY REGULATORY COMMISSION

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Vice Chairman

\_\_\_\_\_  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY  
REGULATORY COMMISSION IN CASE NO. 7782  
DATED AUGUST 29, 1980.

SCHEDULE OF CHARGES

<u>TYPE SERVICE</u>	<u>RATE</u>
1-Party Residence	\$11.35/Month
1-Party Residence Extension	1.50/Month
1-Party Business	17.00/Month
 <u>One Time Service Charges:</u>	
Residence Installation	\$21.00
Business Installation	30.00
Moving, Installing Extensions, Exchanges	17.50
Reconnections	12.50
Jacks	20.00
Long Cords	12.50
Special Phones	2X Cost in excess of Regular Phone

All other rates and charges not specifically mentioned herein  
remain the same.